Press Release

Italix Living Spaces Private Limited

March 25, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 570.00 Cr.
Long Term Rating	ACUITE BB- /Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** on the Rs. 570.00 crore bank facilities of Italix Living Spaces Private Limited (ILPL). The outlook is **'Stable'**.

About the Company

Bengaluru based Italix Living Spaces Private Limited (ILPL) was incorporated in 2018. It is one of the SPV for Ozone Group, which undertakes the construction of Ozone Chambers (erstwhile Galleria Project). The company has acquired the project from Pebble Bay Developers in May 2019 for a consideration of Rs. 427.80 crore funded by Rs. 390 crore of debt and rest by promoter's contributions. It was a leveraged buyout. The project initially consisted of one commercial and one residential phase. ILPL is in the process of converting the residential project to a commercial project. It is located at Koramangala, Bangalore.

Analytical Approach

For arriving at the ratings, Acuité has considered the standalone financial and business risk profile of ILPL.

Key Rating Drivers

Strengths

- **Extensive experience and established track record of operations**

  ILPL incorporated in 2018 is part of the Ozone group. The group is promoted by Mr. Vasudevan, an architect who has almost two decades of experience in real estate development. The Group's developments include IT parks, office spaces, commercial & retail malls, hospitality & serviced apartments, prime residential. It has developed ~9 million square feet area since its inception in 2004 and is in process of developing further 26 million square feet. The Group has projects in Bangalore, Mumbai and Chennai.

  Acuité believes that the groups established track record of project execution and brand presence will help the ILPL's business risk profile over medium term.

Weaknesses

- **Significant project execution risk**

  ILPL is developing project named Ozone Chambers located at Koramangala, Bangalore. The company acquired the project from Pebble Bay Developers in May 2019 at total consideration of Rs. 427.80 crore. This was funded by debt of Rs. 390.00 crore and rest by promoter's contribution. The project consists of two commercial phases with total saleable area of 15.76 million sq. ft.

  The total construction cost for the project is Rs. 470.80 crore out of which Rs. 60.70 crore has been incurred till December 2020. The project stands at a very nascent stage as just 13 percent cost has been incurred. Out of the total saleable area of 15.76 million square feet, the company has sold 0.55 million square feet at the Rs. 509.90 crore. Against that customer advances of Rs. 285.45 crore have been received. Rs. 193.30 have gone to the previous owner and rest have been received by ILPL. The receivable against sold units stand at Rs. 224.45 crore. Further, debt to be drawn is only 40 crore as against the cost of construction and other costs of Rs. 521.75 crore (Phase I & Phase II). Thus Acuite believes the company's dependence on customer advances and promoter funding for timely completion of project will be critical. However, currently the real estate market is tepid and post outbreak of Covid – 19, many companies have cut down on costs such as adding new offices along with higher adoption of work from home which is likely to have an adverse impact on the commercial real estate sales and leasing business.

Acuité believes ILPL's ability to maintain revenue traction for timely execution of the project remains a key rating sensitivity.

- **Susceptibility to tepid real estate demand and regulatory risks**

ILPL is exposed to the risk of volatile prices on account of frequent demand supply mismatches in the real estate industry. The commercial real estate sector is also facing some stress on account of tepid demand brought on by the COVID pandemic. This is primarily on account of higher adoption work from home guidelines during the COVID lockdowns. Given the high degree of financial leverage, the high cost of borrowing inhibits the real estate developers' ability to significantly reduction prices to augment sales growth is limited. Further, the industry is exposed to regulatory risk which is likely to impact players like ILPL, thereby impacting its operating capabilities.

Liquidity Position: Stretched

Acuité believes ILPL's liquidity profile will remain stretched. This is primarily on account of lower funding flexibility due higher dependence on customer advances to fund the construction costs, other costs and finance costs. Over the medium term ILPL will also have to manage repayment of their debt from the same which stand Rs. 85.50 crore in FY2022 and Rs. 114 crore in FY2023. Therefore the company remains highly sensitive to high sales traction and any slowdown in the sale and collection efficiency will affect its liquidity and ability to timely complete the project.

Material Covenants

None

Rating Sensitivities

- Ability to maintain revenue traction for timely execution of the project remains a key rating sensitivity

Rating Outlook: Stable

Acuité believes that ILPL will maintain a stable outlook over medium term on account of established track record and some expected improvement in demand for the commercial real estate projects. The outlook may be revised to positive in case the company achieves significantly higher than expected customer advances and achieves project execution as per schedule. Conversely, the outlook may be revised to Negative in case of slower than expected customer advances or in case of delay in project execution.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(0.06)	(0.01)
PAT Margin	(%)	NA	NA
Total Debt/Tangible Net Worth	Times	NA	NA
PBDIT/Interest	Times	NA	NA

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Real Estate Entities - https://www.acuite.in/view-rating-criteria-63.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)
Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	01-May-2019	8.40	01-May-2024	570.00	ACUITE BB- /Stable (Assigned)

Contacts

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About Acuité Ratings & Research:
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